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DEVON-PALMER OILS LTD.

(No Personal Liability)

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ANNUAL REPORT - YEAR ENDED JANUARY 31, 1961

DEVON - PALMER OILS LTD.

(No Personal Liability)

HEAD OFFICE

941 SOMERSET BUILDING, WINNIPEG, MANITOBA

OPERATIONS OFFICE

320-7th AVENUE S. W., CALGARY, ALBERTA

DISTRICT OFFICE

108 BRENT BUILDING, REGINA, SASKATCHEWAN

TORONTO OFFICE

335 BAY STREET, TORONTO, ONTARIO

DIRECTORS

J. B. AIRD	G. L. JENNISON
G. ALLAN BAKER	W. B. MALONE
D. S. BEATTY	M. E. MERMELSTEIN
H. HARRISS	W. R. NEWMAN
R. JEANTY	G. WEINSCHEL
HON. ROBERT H. WINTERS	

OFFICERS

Chairman of the Board and President	HON. ROBERT H. WINTERS
Vice-President	J. B. AIRD
Vice-President	R. JEANTY
General Manager	G. S. BRANT
Assistant General Manager	J. D. WHITE
Secretary	G. BAKER
Treasurer	C. J. JAMES

REGISTRAR AND TRANSFER AGENT

CHARTERED TRUST COMPANY Toronto, Ontario

CO-TRANSFER AGENTS

THE TORONTO GENERAL TRUSTS CORPORATION Winnipeg, Manitoba
REGISTRAR AND TRANSFER COMPANY Jersey City, New Jersey

CO-REGISTRAR

REGISTRAR AND TRANSFER COMPANY Jersey City, New Jersey

AUDITORS

CLARKSON, GORDON & CO.

BANKERS

THE ROYAL BANK OF CANADA

SHARES LISTED

TORONTO STOCK EXCHANGE
AMERICAN STOCK EXCHANGE

The information herein contained is for the existing shareholders exclusively and there is no offer to sell or inducement to buy within the meaning of the Canadian or United States Security Laws.

DEVON - PALMER OILS LTD.

(No Personal Liability)

Directors' Report to the Shareholders

The directors are pleased to present herewith the Company's annual report for the fiscal year ended January 31, 1961. Included with and forming an integral part of the report are the consolidated financial statements as reported on by the Company's auditors.

The Company's oil production has been maintained at satisfactory levels during the year despite the curtailment, due to market proration, of its Southeastern Saskatchewan medium gravity production. Average daily net oil production over the period under review was 2,541 barrels, compared to 2,864 barrels for the previous year. It may be remembered that during the latter half of 1959 the Company's Weyburn and Midale properties were produced at full allowables thereby increasing its overall annual production rate considerably above what otherwise might have been expected. Marketing prospects for Southeastern Saskatchewan medium gravity crude producing areas are

now much improved and it is anticipated that higher levels of production will be realized by the Company from such properties over the next year.

Net daily sales of pipeline gas during the year established a record high of 10,083,000 cubic feet compared to 8,210,000 cubic feet for the previous year. Net sulphur production and sales during the year were 50,075 long tons and 26,135 long tons respectively. Sales of sulphur from the Company's sole source of production at Okotoks, Alberta, were commenced in May, 1960 after approximately one year of stockpiling operations.

Gross revenue from oil, gas and sulphur sales plus other sources was \$2,324,000 whereas the comparative figure, adjusted to reflect the sale of the Company's drilling rigs and U.S. subsidiary, for the previous year was \$1,991,000. Profit before depreciation, depletion and amortization was \$1,094,000, while the net loss after deduction of non-cash writeoffs was \$537,000. Long term debt

was reduced during the year to \$4,699,000 from \$5,323,000.

During the year the Canadian petroleum industry directed considerable attention on the activities taking place in the Fort Nelson area of British Columbia. Several prolific gas discoveries have been made in this area in the Slave Point or Middle Devonian Carbonate formations. The Company is participating in this interesting exploration through its 39% share interest in British Columbia Oil Lands Ltd. and a 10% working interest in a 30,406 acre Crown Permit. British Columbia Oil Lands Ltd. holds a 12½% carried interest in 1,474,437 acres, 25% carried interest in 546,943 acres of Crown Permits, as well as 15% working interest in the above-mentioned 30,406 acre Permit.

The Fort Nelson area exploratory activities are discussed at length in the body of this report. It will be noted from the text that British Columbia Oil Lands' properties appear favorably located with respect to the Slave Point gas discoveries made to date, with three significant discoveries having been made on British Columbia Oil Lands acreage.

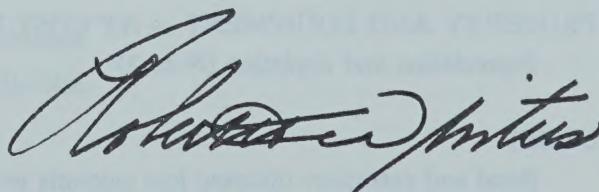
The tempo of exploratory drilling continues in the Fort Nelson area with approximately 25 wells projected for the 1960-61 drilling season, most of which are expected to have some bearing on British Columbia Oil Land Ltd.'s land holdings. The Company looks forward to an early development of substantial gas reserves for this affiliated company. According to recent press announcements, the proposed extension of gas pipeline facilities to the Fort Nelson area is in the advanced planning stage. Actual construction, of course, must await development of sufficient proven gas reserves to support financing of the proposed line. This aspect should have a material effect in sustaining the rate of exploratory drilling if not, in fact, increasing it. Suffice it to say therefore that the Company now can reasonably look forward to an earlier return on its investment in British Columbia Oil Lands Ltd. than it was able to contemplate heretofore.

The Company, during the year under review, expanded its exploratory activities in the Province of Alberta. For the most part the year's endeavours were put forth in acquiring land through purchase at Crown sales and the negotiation of farmouts. One wildcat well, in which the Company held a 25% interest, was drilled in the Penhold area of the Province. This well, located on a major company farmout, failed to encounter Leduc D-3 reef, but was completed as a Basal Quartz Sand oil well. A Crown Drilling Reservation was purchased by the Company and its partner and an additional seismic program conducted in the area. Results of this seismic work were quite favorable and it is planned that an additional D-3 test be drilled this year.

At year's end two wildcat wells, one 50% and one 25% interest, were being drilled. The latter was completed as a Cretaceous gas discovery in the Cessford area subsequent to the year's end. The other well, a D-3 test in the Golden Spike area, was unsuccessful. Several interesting exploratory projects were being considered at year's end.

The directors are pleased to express their gratitude for the valued efforts put forth by the executive and operational personnel during the past year.

On behalf of the board of directors,



Chairman of the Board and President.

April 18, 1961.

DEVON-PALMER OILS LTD.

(No personal liability)

(Incorporated under the laws of Manitoba)

AND ITS SUBSIDIARY

consolidated

ASSETS

CURRENT:

Cash	\$ 47,877
Accounts and notes receivable	748,065
Inventories valued as indicated —	
Sulphur at cost which approximates market	583,462
Materials and supplies at the lower of cost or market	83,538
Prepaid expenses	31,286
Total current assets	\$ 1,494,228

NON-CURRENT PORTION OF INVENTORY, ACCOUNTS AND NOTES RECEIVABLE:

Inventory of sulphur estimated to be not realizable within one year, at cost	\$250,000
5½ % notes receivable (secured)	387,279
Accounts receivable	27,551

INVESTMENT IN SHARES OF OTHER COMPANIES — AT COST

(quoted market value \$5,342,758) (Note 2)	1,845,256
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PROPERTY AND EQUIPMENT — AT COST less accumulated

depreciation and depletion (Note 3)	13,069,185
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OTHER:

Bond and debenture discount less amounts written off	\$388,540
Leaseholds improvements less amounts written off	52,168
Refundable deposits	50,195
	490,903
	<u><u>\$17,564,402</u></u>

balance sheet January 31, 1961

LIABILITIES

CURRENT:

Accounts payable and accrued charges	\$ 384,534
Income and other taxes payable	60,151
Current maturities of long term debt	910,897
Total current liabilities	\$ 1,355,582

LONG TERM DEBT (Note 4)	4,698,217
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SHAREHOLDERS' EQUITY (Notes 5 and 6):

Capital —

Authorized—15,000,000 shares par value 25c each	
Issued —12,293,525 shares	\$ 3,073,381
Paid-in surplus (unchanged during the year)	11,454,433
Deficit (Statement 2)	(3,017,211) 11,510,603

On behalf of the Board:

ROBERT H. WINTERS, Director.

ROGER JEANTY, Director.

See accompanying notes to consolidated financial statements.

\$17,564,402

DEVON - PALMER OILS LTD.

(No personal liability)

AND ITS SUBSIDIARY

consolidated statement of profit and loss and deficit

FOR THE YEAR ENDED JANUARY 31, 1961

Revenue:

Oil and gas sales	\$1,776,437
Sulphur sales	447,873
Interest, management fees and other income	99,421
	<hr/>
	\$2,323,731

Deduct:

Production and general expenses	\$ 742,311
Carrying charges of undeveloped properties	88,165
Exploration costs and dry holes	44,747
Interest (including \$349,190 applicable to long term debt)	354,485
Profit before depreciation, depletion and other write-offs	<hr/> 1,229,708
	<hr/> \$1,094,023

Deduct:

Depreciation and depletion	\$1,276,012
Oil and gas properties abandoned	380,820
Bond and debenture discount written off	45,178
Profit on disposal of property and equipment	(70,657) 1,631,353
Net loss for the year	<hr/> \$ 537,330
Balance of deficit at February 1, 1960	2,479,881
Balance of deficit at January 31, 1961	<hr/> \$3,017,211

See accompanying notes to consolidated financial statements.

notes to consolidated financial statements

JANUARY 31, 1961

1. Basis of consolidation

The consolidated financial statements include the accounts of Devon-Palmer Oils Ltd. and its wholly-owned subsidiary, Devon-Palmer Land and Exploration Company Limited (formerly Canamerican Land and Exploration Company Limited), which was liquidated effective February 1, 1961 following the sale of its net assets to its parent.

2. Investment in shares of other companies

The Company's investment in shares of other companies consists of the following:

	Number of Shares	Cost	Quoted Market values at January 31, 1961
British Columbia Oil Lands Ltd.	329,319	\$ 740,968	\$4,692,800
Prairie Oil Royalties Company, Ltd.	251,270	1,071,586	645,764
Other		32,702	4,194
		<hr/> <u>\$1,845,256</u>	<hr/> <u>\$5,342,758</u>

Because of the number of shares involved, the market values are not necessarily indicative of the amount that could be realized if these investments were sold.

3. Accounting policies and property and equipment

The practice of the companies is to capitalize lease acquisition costs and drilling and development expenditures of producing wells and to deplete such costs on the unit of production method based on estimated reserves of oil and gas. The carrying charges of undeveloped properties are charged to operations as in-

curred. Depreciation of plant, well and other equipment is provided on the straight line method at rates based on the estimated useful life of the assets.

Details of property and equipment at January 31, 1961 are as follows:

	Cost	Accumulated depreciation and depletion	Net Book value
Producing oil and gas wells and properties	\$ 9,230,245	\$3,099,397	\$ 6,130,848
Undeveloped oil and gas properties	1,917,235		1,917,235
Oil and gas well equipment	2,344,965	635,740	1,709,225
Sulphur plant	3,584,198	380,980	3,203,218
Buildings and other equipment	173,870	65,211	108,659
	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>
	\$17,250,513	\$4,181,328	\$13,069,185
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4. Long term debt

5 3/4 % First Mortgage Bonds due April 1, 1971	\$ 3,200,000
Bank loan (secured)	1,994,000
Originally issued by predecessors and assumed by the Company	
5 1/2 % Convertible Sinking Fund Debentures due April 1, 1963	123,000
5 1/2 % Convertible Sinking Fund Bonds, Series A, due March 1, 1964 ..	317,800
	<hr/>
	\$ 5,634,800
Deduct:	
Instalments due within one year included with current liabilities	\$ 910,897
Cash for bond redemption on deposit with Trustee	25,686
	<hr/>
	\$ 4,698,217
	<hr/>

While the Company's bank loan is evidenced by demand notes, the bank has indicated that it will accept repayment in monthly instalments sufficient to retire the loan by October, 1963.

5. Dividend restrictions

The deed of trust securing the 5 3/4 % First Mortgage Bonds contains certain restrictions regarding the payment of dividends.

6. Share capital

472,656 shares are reserved at January 31, 1961 as follows:

- 43,006 shares for conversion of outstanding 5 1/2 % Convertible Sinking Fund Debentures at \$2.86 per share to maturity.
- 94,583 shares for conversion of outstanding 5 1/2 % Convertible Sinking Fund Bonds, Series A, at \$3.36 per share to March 1, 1961 and at varying rates thereafter.
- 85,067 shares for options granted to officers and employees to purchase shares at 90 cents per share, exercisable over the period ending December 31, 1964.
- 250,000 shares for an option granted to The Rio Tinto Mining Company of Canada Limited to purchase shares at \$1.20 per share, exercisable over the period ending July 31, 1961.

auditors' report

*To the Shareholders of
DEVON-PALMER OILS LTD. (no personal liability)*

We have examined the consolidated balance sheet of Devon-Palmer Oils Ltd. and its subsidiary at January 31, 1961 and the related consolidated statement of profit and loss and deficit for the year ended on that date and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

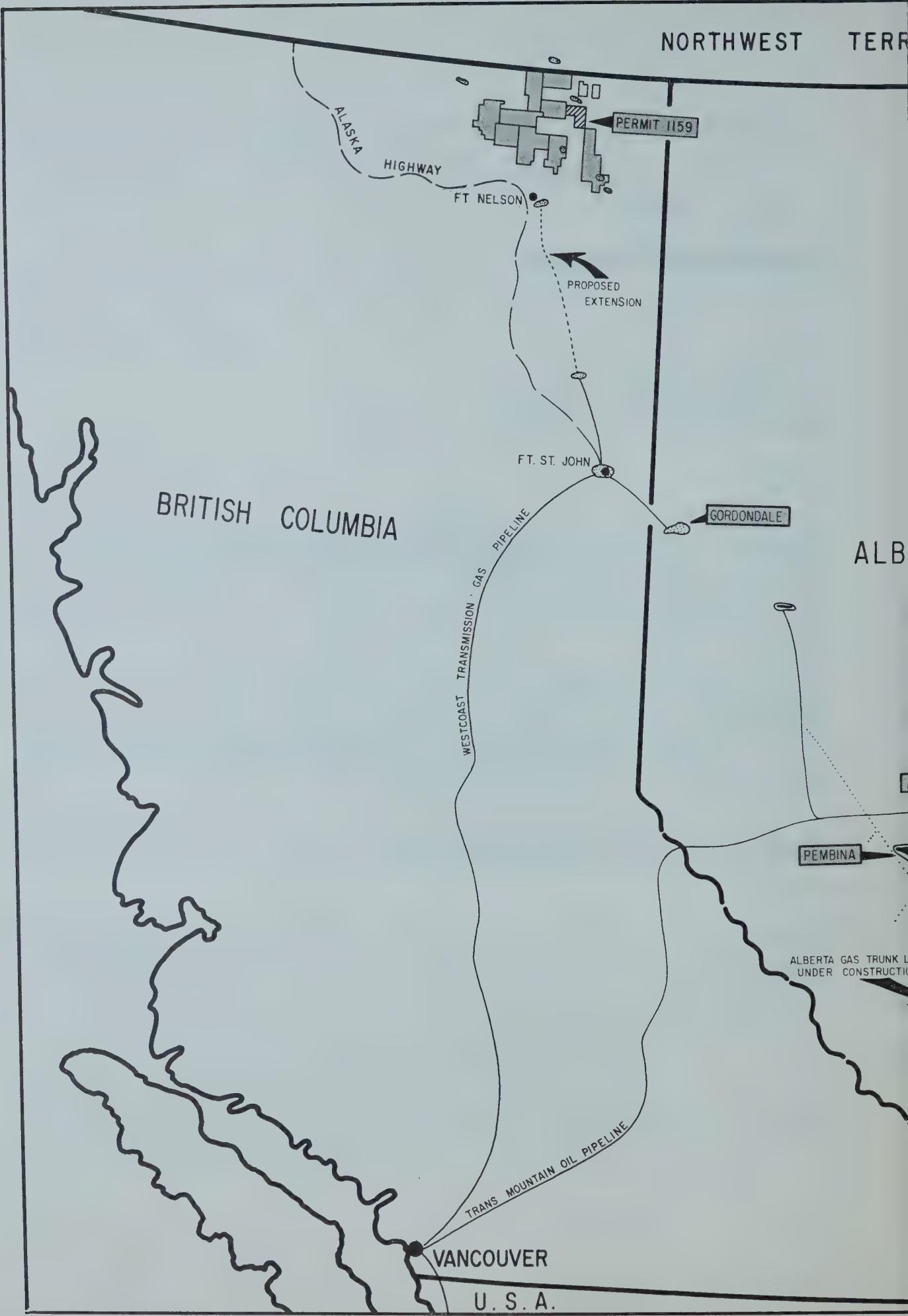
In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statement of profit and loss and deficit are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Devon-Palmer Oils Ltd. and its subsidiary at January 31, 1961 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

All the transactions that have come within our notice have been within the objects and powers of the companies, to the best of our information and belief.

Calgary, Alberta.
April 10, 1961.

CLARKSON, GORDON & CO.
Chartered Accountants.

NORTHWEST TERR



ORIES

FIELDS AND AREAS WHERE DEVON PALMER OILS
HAS AN INTEREST (SHOWN  OKOTOKS)

OIL FIELD 

GAS FIELD 

AREA *

TA

SASKATCHEWAN



development, production and reserves

I DEVELOPMENT ACTIVITIES

During the period under review the Company participated in the drilling of thirteen (net 9.8) development wells, five of which were located in Alberta and the remainder in Saskatchewan. This development activity resulted in the completion of 8.8 net oil wells. Included in the successful wells were two pressure maintenance wells drilled on the Company's wholly-owned properties in the Pembina Field, Alberta. The allowables received in respect to these two wells have been transferred and are being produced by other wells located on the properties. No development gas wells were drilled during the year.

The year's development program compares favorably with that of the previous year when 5.0 net oil and 0.85 net gas wells were completed.

ALBERTA

Chauvin Field

The Company's engineers have completed studies which indicate that oil recovery from this field may be increased considerably by waterflooding. Approval has been obtained from the Alberta Oil and Gas Conservation Board to the implementation of a pilot waterflood project. Commencement of the pilot operations, required to confirm engineering calculations before full scale waterflooding can be undertaken, awaits completion of unitization negotiations for the field, which are now in progress.

Pembina Field

During the year the Company converted 320 acres of wholly-owned leases to water injection pressure-maintenance operations. An additional 160-acre tract is being considered for conversion in 1962. It is anticipated that oil recovery from these company properties will be increased appreciably through waterflooding.

SUMMARY OF OIL AND GAS WELLS (AS OF JANUARY 31, 1961)

I OIL

Province	Field	Total Wells	Net Wells
ALBERTA	Acheson	8	3.04
	Chauvin	30	26.00
	Fenn-Big Valley	2	.16
	Joarcam	8	1.92
	Leduc-Woodbend	350	.31
	Pembina	204	15.76
	Penhold	1	.25
	Red Coulee	6	3.50
	Stettler	77	686 .41 51.35
SASKATCHEWAN	Benson	1	.12
	Carnduff	5	2.50
	Glen Ewen	4	2.62
	Hastings	4	2.00
	Hitchcock	3	.75
	Midale	13	11.62
	Parkman	1	.20
	Wapella	2	1.50
	Weyburn	21	54 16.38 37.69
TOTAL OIL		740	89.04
II GAS		—	—
	East Calgary	3	.50
	Gordondale	15	3.75
	Okotoks	6	2.34
	Pembina	2	.02
	Turin (Taber)	1	.07
	Westlock	1	28 .05 6.73
TOTAL GAS		28	6.73
TOTAL OIL & GAS		768	95.77

Calgary Gas Field

Sale of pipeline gas from this dual zone gas field to Westcoast Transmission Company is slated to commence in late 1961. The operators have formed a private corporation, Petrogas Processing Ltd., to own and operate the necessary gas gathering and processing facilities. The Company holds initially 2.7625% of the outstanding shares of this Corporation, reflecting approximately its interest in the Calgary Gas Field's reserves. Financing of

the construction and working requirements of Petrogas, amounting to \$13,000,000, has been satisfactorily arranged subsequent to the year's end.

The Company's share of plant products based on currently contracted pipeline gas volume of 100,000,000 cubic feet per day is expected to be approximately 2,000,000 cubic feet per day of pipeline gas, 25 barrels per day of natural gasolines and condensates, and 20 long tons per day

of elemental sulphur. It is anticipated that the project will make a material contribution to the Company's income beginning in 1962.

Okotoks Project

The Okotoks Project operated satisfactorily during the year under review, processing sour gas produced from the Company's interest wells in the Okotoks Field at near original design capacity rates. The Company's shares of plant products for the year were 1,720 million cubic feet of pipeline gas and 50,075 long tons of elemental sulphur. No additional wells had to be drilled in the Okotoks Unit to supply the Gas-Sulphur Plant annual throughput requirement of 10,131 million cubic feet. The Company's present 42.5% interest in the Okotoks Unit and Plant will be reduced, as of June 1, 1961, to 41.25% and by an additional 1 1/4% each year thereafter to a minimum of 37 1/2% pursuant to the farmout agreement with Shell Oil Company of Canada, Limited whereby the Company acquired its interest in the Okotoks Field.

Gordondale Gas Field

The Company holds a 25% carried working interest in this Northern Alberta gas field which contains a total of nine producing wells. Gas sales from the Field to Westcoast Transmission Company are currently at the rate of approximately 25,000,000 cubic feet per day. Effective January 1, 1961 the sales price for this gas was increased to 10c per Mcf. thereby enhancing the value of the Company's holdings. As of the year's end the Company's unretired share of field development costs was \$536,804 having been reduced by \$170,440 during the year under review, when gas sales were being made at 9c per Mcf.

SASKATCHEWAN

Midale Field

The Company completed its development program in the Midale Field where 6.25 net oil wells

were drilled. At year's end farmouts of three locations were under negotiation whereby the Company would retain gross overriding royalty or net carried interests.

Hastings Field

A quarter-section in which the Company holds a 50% working interest was being offset by development drilling at year end. The Company and its partner plan early development of this property, which is located in a light gravity oil producing area.

Hitchcock Field

Further development of the Company's properties in the Hitchcock Field awaits clarification of the oil allowable situation as it affects this field. It is contemplated that additional development drilling will be undertaken this year provided anticipated oil sales warrant such action.

II OIL, GAS AND SULPHUR PRODUCTION

The Company's net oil, gas and sulphur production during the year under review, together with comparative figures for the previous year, is presented below:

	Year Ended	
	Jan. 31	
	1961	1960
Crude Oil		
& Condensate (bbls./day)	2,541	2,864
Pipeline Gas (Mcf./day)	10,083	8,210
Sulphur (L. T./day)	137	83

The decline in oil production from the previous year results principally from the implementation of a voluntary proration scheme by the operators in the medium-gravity crude producing areas of Southeastern Saskatchewan. It will be recalled that during the latter half of 1959 the Company enjoyed a special marketing situation in that area, which allowed full allowable production rates. The Company is now producing approximately two-thirds of its maximum oil allowable.

During the past year the marketing outlook for Southeastern Saskatchewan medium-gravity crude has improved considerably and it is believed that the Company can expect to increase its crude oil sales from such properties over the next year.

The increases in pipeline gas and sulphur production results from the first full year of operations at Okotoks.

III OIL AND GAS WELLS

As of January 31, 1961 the Company held varying working interests in 740 oil and 28 gas wells in

the Provinces of Alberta and Saskatchewan with its net interest being 89 oil and 6.8 gas wells. The marked increase in gross oil well interests from 380 reported previously results from the inclusion of two minor interest wells in the Leduc field into a large 350 well Unit.

A summary of the Company's oil and gas well interests by Province and Field is presented in a table contained elsewhere in this report. The locations of producing areas where the Company holds such interests are illustrated on a map, also included.

IV RESERVES

The Company's net reserves position at year's end, as calculated by an independent firm of consultants, compared with that of the previous year is tabulated below:

As of January 31	1961			1960		
	Drilled	Undrilled	Total	Drilled	Undrilled	Total
Oil and N.G.L. (1,000 bbls)	10,232	113	10,345	10,270	1,565	11,835
Pipeline Gas (MMcf.).....	78,263	3,814	82,077	74,759	29,418	104,177
Sulphur (1,000 long tons)	1,434	97	1,531	1,662	332	1,994

It will be observed that the Company's total reserves have been reduced from that reported for the previous year's end. In addition to the year's production, oil and natural gas liquids reserve was reduced principally through a downward revision of previous undrilled estimates and a revaluation of certain Pembina and Weyburn Field interests.

Pipeline gas reserves were reduced in the Calgary Gas Field upon a transfer from an undrilled to drilled category in view of the results of unitization studies completed by the Operators. Okotoks Field gas reserves were also reduced to reflect the anticipated change in ownership over its producing life. In addition, a minor non-producing gas royalty interest in the Medicine Hat Gas Field was sold during the year.

Sulphur reserves decreased proportionately with the above mentioned reduction in pipeline gas reserves in the Calgary and Okotoks Fields.

It should be noted, however, that the Company's drilled proved reserves position has remained relatively constant over the year under review.

exploration and land

I EXPLORATION ACTIVITIES

The Company participated in the drilling of four exploratory wells during the period under review. Two wells (net 0.65) were located in Alberta, one (net 0.25) of which was completed successfully as a Basal Cretaceous oil well. The remaining two wells (net 0.63) were drilled in Southeastern Saskatchewan and were not successful.

At year end one well (net 0.10) was being drilled in Northeastern British Columbia (Permit 1159 farmout) by a major operator at no expense to the Company. Two wells were being drilled in Alberta in partnership with other companies.

In addition to the projects discussed below the Company is considering several interesting and worthwhile projects. It is planned to pursue these prospects with the view to acquiring acreage as required and then drilling thereon. The Company's exploratory policy will continue to be to expand further its activities in the Province of Alberta, but

to follow closely, as well, the developments taking place in the other three Western Provinces. Wherever possible the Company proposes to arrange for drilling of exploratory wells on Company held lands by other companies, thereby promoting an early evaluation of its interests. To this end several farmouts and option agreements were negotiated during the year by the Company's Land Department.

ALBERTA

Cereal

An 85,000 acre Crown Petroleum and Natural Gas Reservation located in the Cereal area of East-Central Alberta was purchased in July, 1960. This reservation lies approximately twelve miles west of the Alberta Gas Trunk Line gathering system, which supplies gas to Trans-Canada Pipelines. Several gas discoveries or fields lie in close proximity to the acreage. During the past year a total

of 37 shallow structure test holes were drilled on the acreage as an initial exploratory measure. This program indicated that the reservation area contains structures favorable for gas accumulation. It is planned to test these structures by drilling in the coming year.

Halliday

A farmout involving approximately 13,000 acres of land in the Halliday area of East Central Alberta was obtained by the Company from two major companies. The Company, together with its equal partner, obtained further farmouts on 7,000 acres held by other companies in this Area and purchased a 13,000 acre gas license; the Company's interest in the latter being 37½ %. The Company will obtain 50% of the rights to be earned under the terms of the various farmout agreements by paying only 25% of the exploratory cost of drilling of the first two wells required thereby, after which the Company will bear its full share of all costs. Varying interests in a total of 33,000 acres may be earned by drilling in this Area. Several gas discoveries have been made in the immediate area and the Alberta Gas Trunk Line gathering system passes within five miles of the acreage.

At year end one well, Francana Dev-Pal Halliday 7-35, had been drilled and was an indicated gas discovery from the Cretaceous glauconitic sand. Production testing of this well and further drilling on the lands will be carried out in the coming year.

Penhold

In the spring of 1960 Devon-Palmer participated in the drilling of Dev-Pal Ren Penhold 14-31, located on farmout lands obtained from a major company. This resulted in a Cretaceous oil discovery and earned the Company a 25% interest in the farmout lands. Devon-Palmer also participated to the same extent in the purchase of a 7,840 acre drilling reservation. The drilling of a well to test for D-3 possibilities will earn the Company and its partners 1,920 acres of lease lands. In addition, the Company has purchased other freehold lands in the area as they became available. A detailed seismic program carried out in the

summer of 1960 indicated possibilities of reef growth similar to that found in the Innisfail Field, ten miles to the southwest. In addition to Devonian Nisku (D-2) and Leduc (D-3) reef possibilities, the acreage is potential for gas and oil from sands in the Upper and Lower Cretaceous and from the Mississippian limestone. It is planned to commence a test well on this acreage in May or June of 1961.

BRITISH COLUMBIA

Fort Nelson Area

A farmout of the 30,406 acre P. & N.G. Permit No. 1159, which was purchased by the Company and three other participants in March, 1959, was granted to the Pan American Petroleum Corporation. This Permit is located approximately four miles south of the Petitot River gas wells drilled by Western Natural Gas Company Inc. The details of the farmout are presented elsewhere in this report in the section dealing with British Columbia Oil Lands Ltd. The Company retains a 10% working interest in these lands.

One well, Pan Am Dilly Lake a-27-K, was drilled and abandoned subsequent to the year-end on the Permit at no cost to the Company. A second well, free to the Company, will be drilled by Pan American during the 1961-62 drilling season.

II LAND ACTIVITIES

As of January 31, 1961 the Company held leasehold interests equivalent to 227,299 net acres, an increase of 30% over that reported one year ago. This increase in the Company's land interests resulted from the expansion of its exploration program in Alberta. Interests were acquired in several large spreads during the year through farmout arrangements or outright purchases. Saskatchewan and Manitoba holdings decreased as certain leases were surrendered or allowed to expire of their own terms. In such cases the Company's management felt that further payment of rentals or immediate drilling were not justified in light of current geological appraisals.

A tabulation of the Company's land holdings appears elsewhere in this report.

associated companies and subsidiaries

British Columbia Oil Lands Ltd.

(No personal liability)

The Company holds 329,719 common shares or 39% of the outstanding capital of British Columbia Oil Lands Ltd.

Following are the holdings of British Columbia Oil Lands Ltd. in the Fort Nelson area of Northeastern British Columbia.

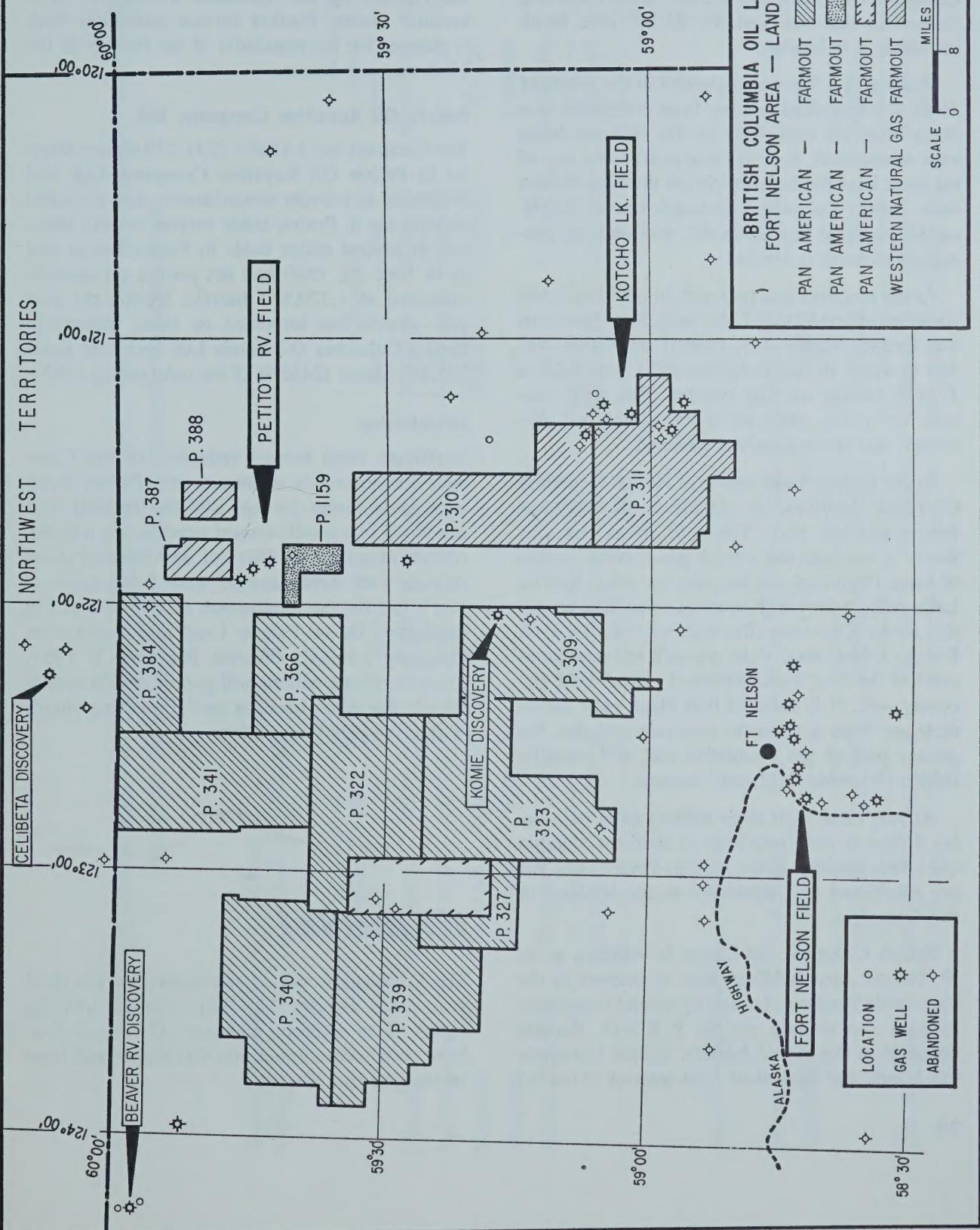
Acreage	B.C.O.L. Interest	Disposition
454,783	25% carried	Farmed to Western Natural Gas Company, Inc., El Paso Natural Gas Company and General American Oil Company.
1,474,437	12½% carried	Farmed to Pan American Petroleum Corporation.
92,160	25% carried	Farmed to Pan American Petroleum Corporation.
30,406	15% working	Farmed to Pan American Petroleum Corporation.

During the past year a farmout of Permit 1159 containing 30,406 acres and located in the Petitot River area, was made to Pan American Petroleum Corporation as noted above. Pan American, in addition to the payment of a substantial cash consideration, agreed to drill two wells on the permit free to British Columbia Oil Lands Ltd. and partners. British Columbia Oil Lands retains a 15% working interest in the lands. The first of the two commitment wells, Dilly Lake a-27-K, was drilled and abandoned subsequent to year's end with the second to be drilled in the 1961-62 drilling season. Western Natural Gas Company Inc. is drilling a Petitot field extension well three miles to the north of the permit.

At the end of the previous fiscal year (January 31, 1960) four wells were drilling on British Columbia Oil Lands' acreage. Two of these were later abandoned during the drilling season and two were suspended after entering porosity in the Slave Point.

Pan Am Deer Lake a-90-I, suspended in the spring of 1960 after encountering a show of gas

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from the Slave Point, was further tested during the 1960-61 drilling season and abandoned when this show was found to be non-commercial. British Columbia Oil Lands has a 25% carried working interest in this well and the 92,160 acre block on which it is located.

Pan Am A-1 Komie, suspended in the spring of 1960, was deepened and has been completed as a Slave Point gas well. Data on this hole are being kept confidential; however it appears to be one of the most important discoveries in the Fort Nelson area. British Columbia Oil Lands has a 12½ % carried working interest in this well and the permit on which it is located.

At the present fiscal year end, in addition to the above-mentioned Dilly Lake well, Pan American was drilling Komie A-2, located on Permit No. 309 in which British Columbia Oil Lands holds a 12½ % carried working interest. This well, situated four miles southwest of the Komie A-1 discovery, was subsequently abandoned.

In the Kotcho Lake sector of British Columbia Oil Lands' holdings, one significant discovery has been made this year. This well, West Nat Gas Kathy 2, encountered a thick gas-bearing section of Slave Point reef and has, like the other Kotcho Lake wells, a very high absolute open flow potential. Kathy 2 lies five miles northwest of Pacific N. Kotcho a-44-C Slave Point gas well and nine miles north of the Gulf States Kotcho L. No. 3 field discovery well. It is believed that these wells derive their gas from a common reservoir and that the greater part of the productive reef will underlie British Columbia Oil Lands' acreage.

At year's end eight other wildcat wells were being drilled in close proximity to British Columbia Oil Lands holdings in the Kotcho-Petitot area. All are considered very significant to the holdings of this Company.

British Columbia Oil Lands, in addition to its Ft. Nelson Area holdings, has an interest in the Pan Arctic Syndicate formed by several companies to hold and manage certain P. & N.G. Permits acquired in the Arctic Islands. British Columbia Oil Lands' net equivalent land interest (11½ %)

in the 4,672,000 acres of Permits is 531,500 acres. Air photo and surface geological reconnaissance programs were conducted on a portion of the Permits by the Syndicate during the 1960 summer season. Further surface geological work is planned for the remainder of the Permits in the 1961 summer season.

Prairie Oil Royalties Company, Ltd.

The Company has a 13.8% (251,270 shares) interest in Prairie Oil Royalties Company, Ltd. and continued to provide administrative and technical services for it. Prairie holds varying royalty interests in several major fields in Saskatchewan and as of June 30, 1960 had net proven oil reserves estimated at 1,270,877 barrels. During the past year Prairie has increased its share interest in British Columbia Oil Lands Ltd. and now holds 205,161 shares (24½ % of the outstanding stock).

Subsidiaries

Significant steps toward reduction of the Company's overhead to minimum yet efficient levels were made during the year with the liquidation or windup of two wholly-owned subsidiaries, namely, Alberta Minerals and Oils Ltd. and Devon-Palmer Drilling Ltd. Arrangements were being made at year's end for the termination of a third and last subsidiary, Devon-Palmer Land and Exploration Company Limited, effective February 1, 1961. These corporate actions will permit certain economies in the administration and accounting phases of the Company's operations.

financial

The Company's audited statements for the fiscal year ended January 31, 1961, together with the report of its auditors, Clarkson, Gordon & Co., have been incorporated into this report and form an integral part thereof.

**COMPARISON OF LAND HOLDINGS AS OF JANUARY 31st, 1961, WITH THAT OF JANUARY 31st, 1960
SHOWING TOTAL AMOUNT OF ACREAGE ACQUIRED OR DISPOSED OF**

Petroleum and Natural Gas Leases, Drilling Reservation, Gas Licence and Permits

Acres on Hand January 31, 1960		Acquired		Disposed of		Acres on Hand January 31, 1961		
Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Alberta	276,890.81	57,371.28	131,753.35	115,833.61	16,588.44	9,154.25	392,055.72	164,050.64
Saskatchewan	142,756.67	94,500.31	4,968.00	4,244.50	58,185.46	40,265.29	89,539.21	58,479.52
Manitoba	28,512.87	14,256.43	—	—	27,672.87	13,836.43	840.00	420.00
Montana	1,308.00	1,308.00	—	—	—	—	1,308.00	1,308.00
British Columbia	30,406.00	7,601.50	—	—	—	4,560.90	30,406.00	3,040.60
	479,874.35	175,037.52	136,721.35	120,078.11	102,446.77	67,816.87	514,148.93	227,298.76
Mineral and Royalty Interests								
Alberta	17,668.00	621.70	19,846.82	2,512.40	9,115.00	261.87	28,399.82	2,872.23
Saskatchewan	2,232.81	552.57	.98	.02	80.00	1.60	2,153.79	550.99
	19,900.81	1,174.27	19,847.80	2,512.42	9,195.00	263.47	30,553.61	3,423.22
All Interests	499,775.16	176,211.79	156,569.15	122,590.53	111,641.77	68,080.34	544,702.54	230,721.98

